

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 SAJ-01 EUR-25 L-03 H-03 PA-04 PRS-01 USIA-15

INT-08 SAM-01 FEA-02 SCI-06 DRC-01 /195 W

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R 240700Z MAY 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 871

INFO USLO PEKING

AMEMBASSY TOKYO

C O N F I D E N T I A L HONG KONG 5865

DEPARTMENT PASS TREASURY

E.O. 11652: GDS

TAGS: EFIN CH JA

SUBJ: DEVELOPMENTS IN JAPAN-CHINA FINANCIAL RELATIONSHIPS

REF: HK 4909

1. SUMMARY: TREASURY REPRESENTATIVE , HONG KONG, TOOK ADVANTAGE OF STOPOVER IN TOKYO TO VISIT BANKS IN TOKYO AND JAPAN

SANWA BANK. WHILE THERE WAS ALSO HINTS THAT JAPANESE BUSINESSMEN WERE TAKING HARDER LOOK AT ITS LONG-TERM PROFITABILITY, BILATERAL PAYMENTS AGREEMENT IS BEING RENEWED WITHOUT SUBSTANTIVE CHANGE. END SUMMARY.

2. TRADE OUTLOOK - ALL CONTACTS WERE OPTIMISTIC ABOUT FUTURE EXPANSION OF TRADE WITH CHINA BUT WERE NOT SPECIFIC ABOUT COMMODITIES. EXCEPTION WAS COKING COAL EXPORTS FROM PRC WHICH WAS MENTIONED SEVERAL TIMES AND IN WHICH THERE
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APPEARS TO BE KEEN INTEREST IN JAPAN. AT SAME TIME ONE SOURCE

NOTED CURRENT DISCUSSION, AMONG JAPANESE BUSINESSMEN DEALING WITH CHINA, OF NEED TO TAKE MORE BUSINESS-LIKE ATTITUDE. FOR EXAMPLE, PROFIT MARGINS ON JAPANESE SALES OF STEEL AND FERTILIZERS WERE LOWER TO CHINA THAN TO OTHER DESTINATIONS. WITH PRODUCTION IN BOTH INDUSTRIES AT 100 PERCENT CAPACITY, THERE WAS NO LONGER AN FINANCIAL INCENTIVE TO MAKE THESE SALES AT LOWER PRICES.

3. THERE ALSO APPEARED TO BE SOME SKEPTICISM ABOUT USING TRADITIONAL JAPANESE PRACTICE OF TAKING LOSS ON FIRST TRANSACTION TO BREAK INTO NEW MARKET AND RECOUP PROFIT LATER. NIPPON STEEL NEGOTIATION WAS ILLUSTRATION WHERE TALKS HAD BEEN PROLONGED BECAUSE OF NIPPON'S DESIRE TO REDUCE ITS SELF-ACKNOWLEDGED LOSSES ON THE CONTRACT. ONE ADVANTAGE IT HAD GAINED WAS DENOMINATION OF THE CREDIT IN YEN INSTEAD OF RMB, I.E., PRC WOULD HAVE TAKEN THE EXCHANGE RISK; ACCORDING TO AFP ANOTHER ADVANTAGE WAS 40 PERCENT DOWNPAYMENT COMPARED TO MORE USUAL 20-25 PERCENT PATTERN. CONTRACT IS STILL NOT SIGNED.

4. JAPAN-CHINA CLEARING AGREEMENT - BANK OF TOKYO ON MAY 7 HAD SENT LETTER TO BANK OF CHINA AGREEING TO RENEWAL OF CLEARING AGREEMENT FOR ANOTHER YEAR FROM TIME OF EXPIRATION ON AUGUST 7. IT WAS ANTICIPATED THAT THERE WOULD BE NO OBJECTION FROM THE CHINESE SINCE CURRENT AGREEMENT CLEARLY FAVORED THEM. PARTICULARLY ANNOYING TO JAPANESE WAS INABILITY TO ARRANGE FOR FORWARD EXCHANGE FACILITIES. ON OTHER HAND, AGREEMENT PROVIDED VERY LITTLE CREDIT CURRENTLY BECAUSE JAPANESE BANK HOLDING OF RMB WAS SMALL. (COMMENT: THIS CONTRADICTS STATEMENT IN REFTEL, PAR. 4).

5. EURO-CURRENCY DEPOSITS - JAPANESE BANK COMMITMENTS FOR EURO-CURRENCY DEPOSITS IN BANK OF CHINA WERE LESS THAN \$100 MILLION. THE SPREAD WERE VERY SMALL-- ONE -EIGHTH OF ONE PERCENT IN ONE CASE AND ONE-FOURTH OF ONE PERCENT IN ANOTHER. (COMMENT: UK PAID ONE-HALF OF ONE PERCENT FOR ITS EURO-CURRENCY BORROWING.) THERE WAS IMPLICATION THAT JAPANESE BANKS WERE NOT ANXIOUS FOR MUCH OF THIS BUSINESS ON SUCH THIN MARGINS.

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6. BANK OF JAPAN - BANK OF CHINA CONTACTS -- IN TALK WITH ANOTHER MEMBER OF GROUP THAT RECENTLY VISITED PEKING (SEE REFTEL), IT WAS LEARNED THAT:
A) BANK OF JAPAN HAS PERMANENT REPRESENTATIVE IN PEKING AT THEIR EMBASSY;
B) FOREIGN EXCHANGE BUDGET IS KEPT IN RMB,
C) RMB PRICES PAID TO PRODUCING UNIT IN CHINA ARE LESS THAN RMB EQUIVALENT RECEIVED FROM FOREIGN BUYERS AND RECORDED

IN BUDGET, AND

D) IMPORTS ARE SOLD AT LOWER RMB PRICES THAN RMB EQUIVALENTS
OF THEIR FOREIGN EXCHANGE PRICES.

COMMENT: IN EFFECT IMPORTS ARE SUBSIDIZED WHILE EXPORTS ARE TAXED.
STATEMENT IN REFTEL THAT POLICY OBJECTIVE OF KEEPING FOREIGN
EXCHANGE BUDGET IN BALANCE, IF INTERPRETED IN LIGHT OF THESE
PRACTICES, DOES NOT NECESSARILY MEAN THAT THERE HAS TO BE BALANCE
OF FOREIGN EXCHANGE RECEIPTS AND EXPENDITURE. IT IS NOT CLEAR
WHETHER THIS TECHNIQUE IS USED TO OBSCURE THE WORKINGS
OF THE BALANCE OF PAYMENTS FROM NON- EXPERTS OR IS USED AS
A PRICING DEVICE TO ALLOCATE RESOURCES OR POSSIBLY BOTH.
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